OCTOBER 24, 1983 THREE DOLLARS

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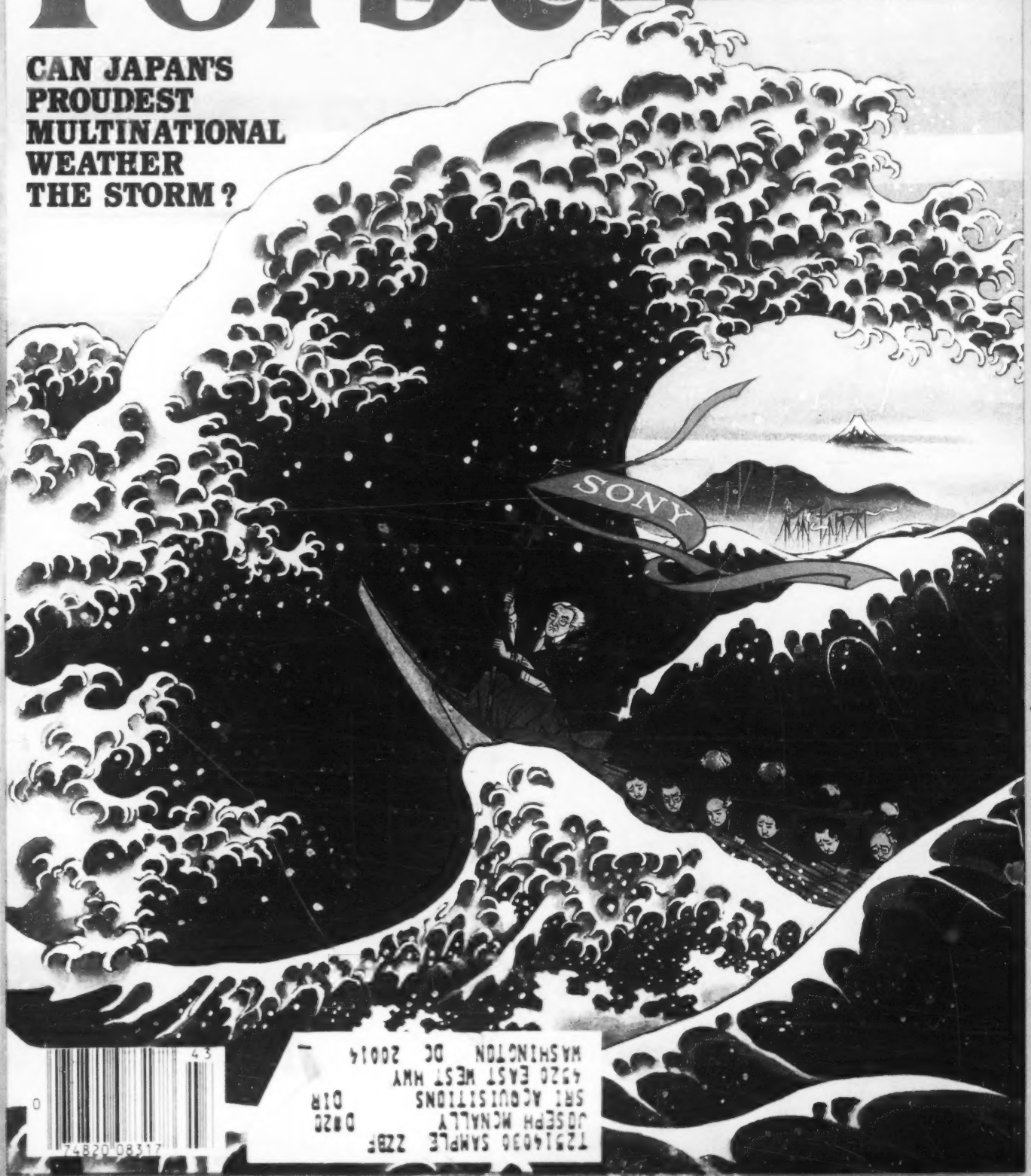
Forbes

CAN JAPAN'S PROUDEST MULTINATIONAL WEATHER THE STORM?



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Volume 132,
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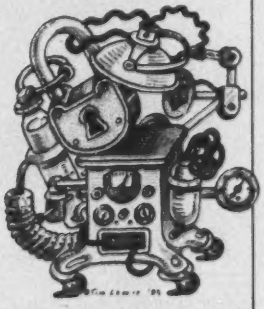

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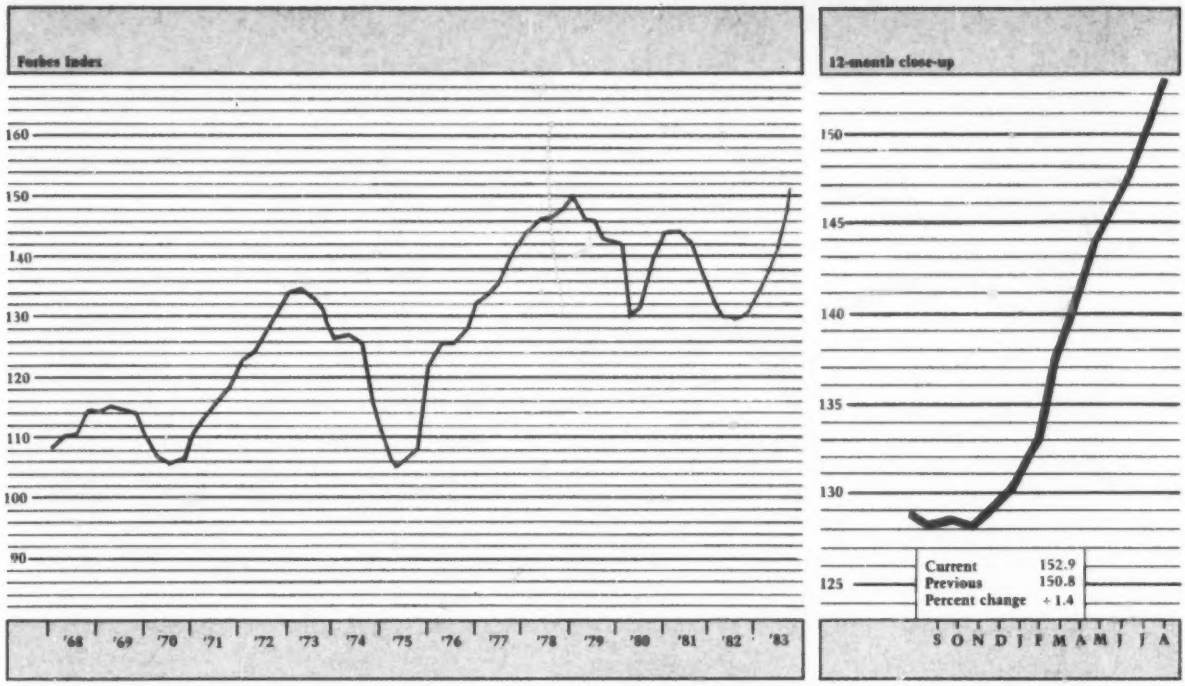
The Forbes Index



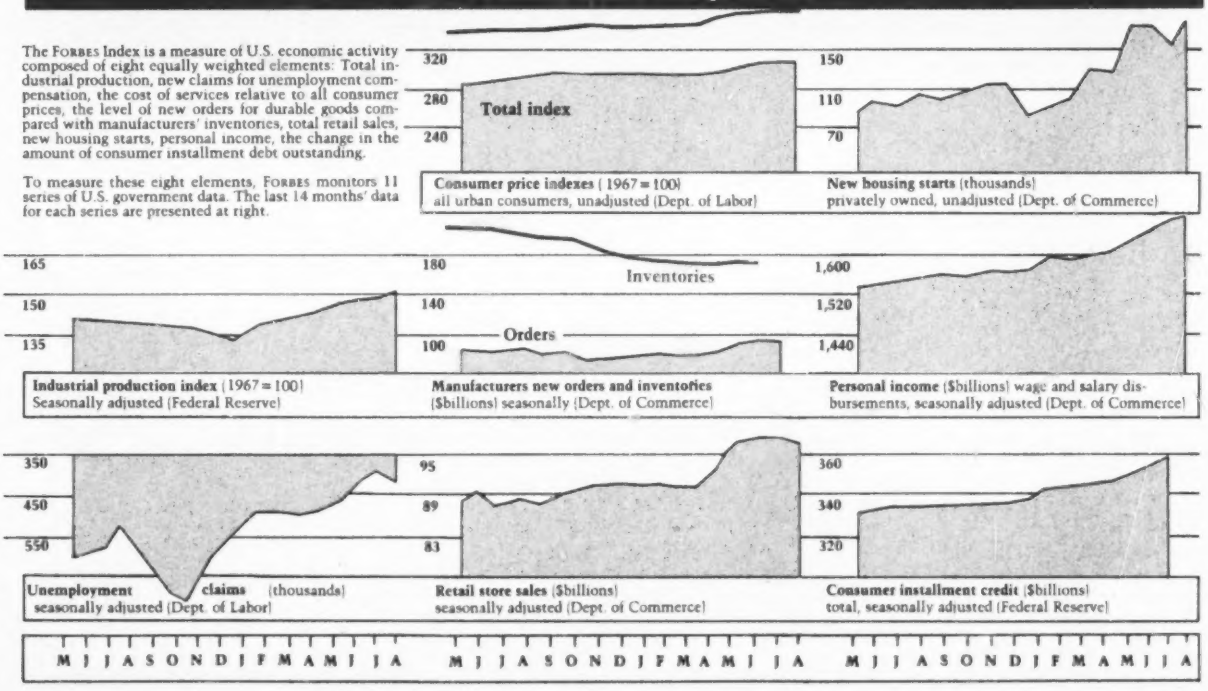
One step at a time. The Forbes Index is still trekking upward. But the rate of the increase continues to slow. Revised figures for new housing starts are largely responsible for the latest advance, a healthy 12.6% from the previous month. Compared with the level one year ago, new housing starts, up 87%, are particularly strong.

The Consumer Price Index for services also contains some soothing news for those worried about a resurgence of inflation. The latest figures on this component of the Forbes Index show a 0.3% gain from the previous month. Last year at this time the month-to-month jump was almost twice as high. Consumers now have more money in their pockets, too: Personal income posted a 0.4% month-to-month gain.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series are presented at right.


320
280
240
Total index
150
110
70
Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
165
150
135
180
140
100
Inventories
Orders
1,600
1,520
1,440
Industrial production index (1967 = 100) Seasonally adjusted (Federal Reserve)
Manufacturers new orders and inventories ($billions) seasonally (Dept. of Commerce)
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
350
450
550
95
89
83
360
340
320
Unemployment claims (thousands) seasonally adjusted (Dept. of Labor)
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
M J J A S O N D J F M A M J J A
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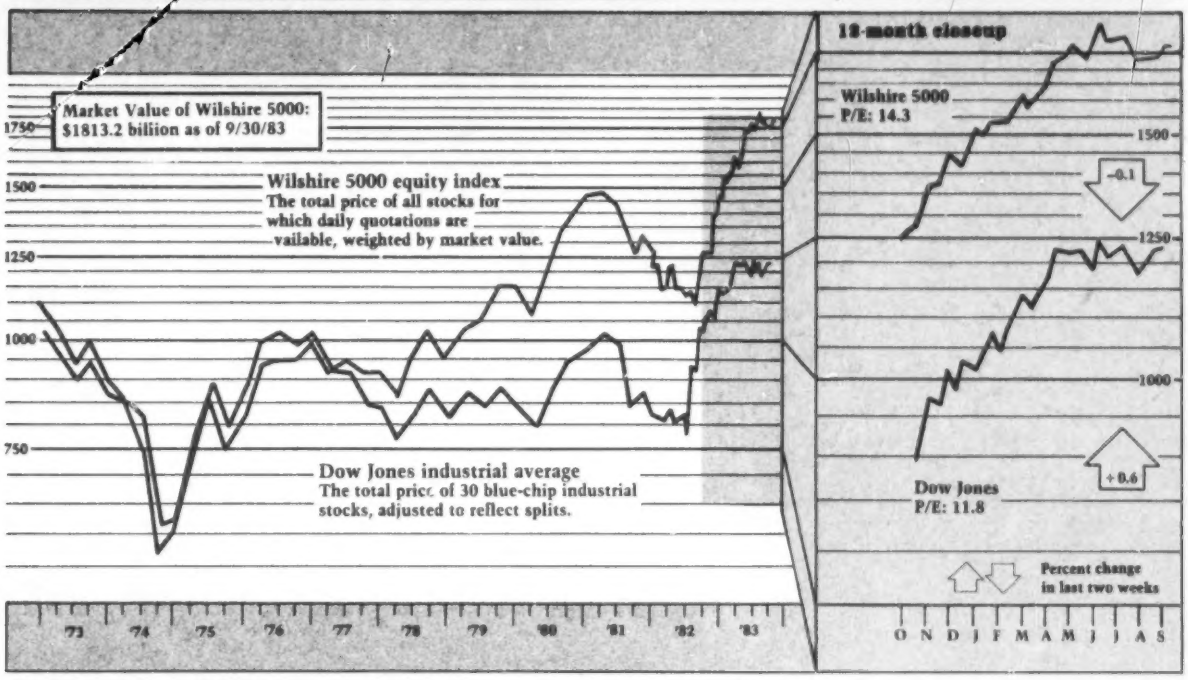
The Forbes/Wilshire 5000 Review



The correction continues for secondary stocks. While blue chips show minor advances for the two- and four-week periods, secondary issues continued on the southward course that they began early in July. Over the last two weeks the Amex was off 1.1% and the NASDAQ 0.5%. On the other hand, the Dow industrials gained 0.6% and the average Big Board stock was up 0.1%, according to the NYSE index. But the gains in big capitalization issues were not enough to prevent the overall market, as measured by the Wilshire index, from slipping 0.1% for the two weeks. Over the last four weeks, however, the Wilshire managed a 0.6% advance, despite losses for Amex and NASDAQ issues. This dichotomy is further highlighted by the yardstick measurements below. The shares of large companies are up 1% for the month while small firms declined 1.7%. High-volatility shares lost 2.6% while low-volatility shares were up 1.1%. And issues with high-growth profiles were off 3.5% vs. a 2.4% gain for their low-growth counterparts. Because of earnings improvements for some of the Dow stocks, the P/E on the Dow industrials declined from 12.5 to 11.8. The Dow stocks had not sold for less than 12 times latest 12-month earnings since mid-February. Meanwhile, the P/E on the Wilshire index remained unchanged at 14.3.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	0.6	0.9	1.5	1.0	–0.9	–0.4
in last 52 weeks	40.7	34.9	35.8	37.5	62.7	57.2

Stock performance based on five key investor yardsticks

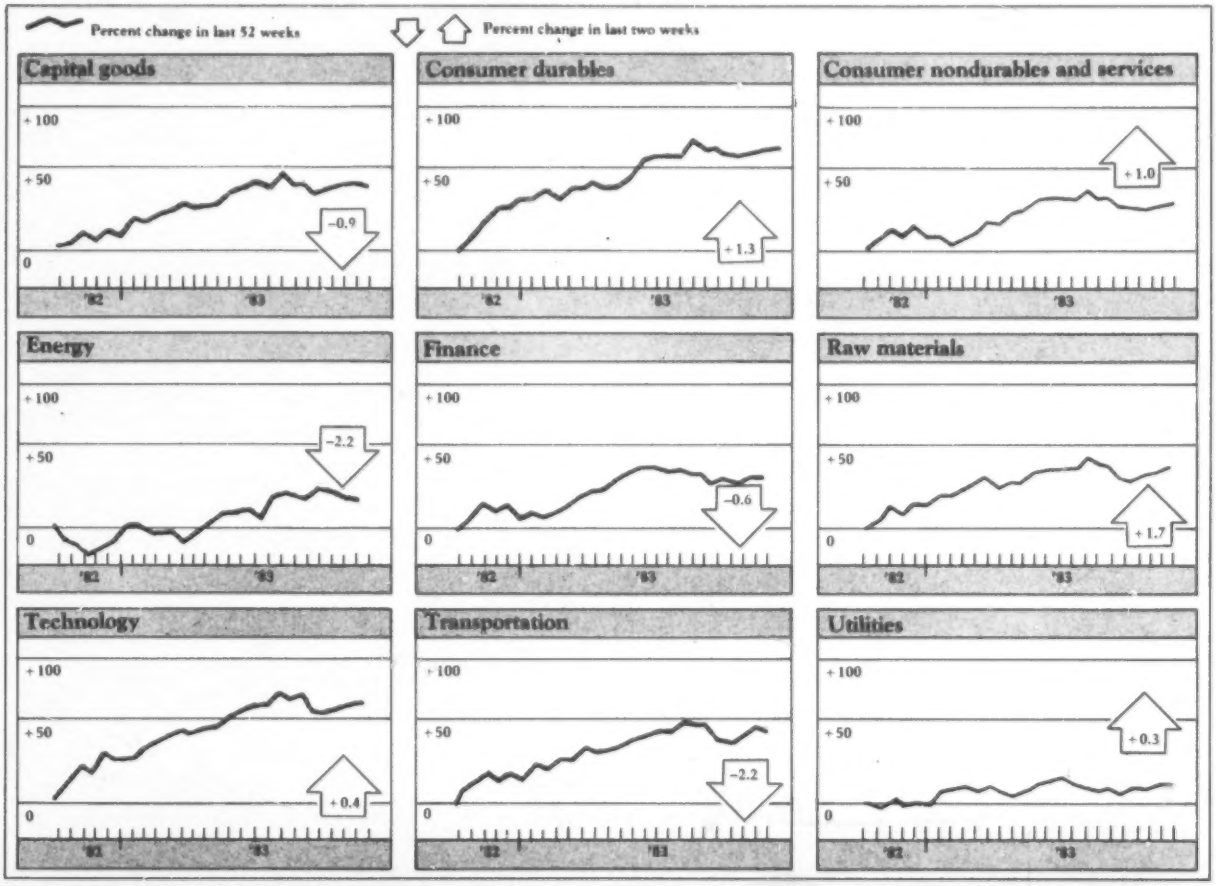
Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	1.0	–1.7	–2.6	1.1	–2.3	–1.0	2.8	– 0.8	–3.5	2.4	2.2	–2.9
in last 52 weeks	42.6	128.8	115.7	49.4	81.1	121.6	44.5	120.6	134.0	50.3	54.5	118.1

[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 9/30/83. Prepared by Wilshire Associates, Santa Monica, Calif.

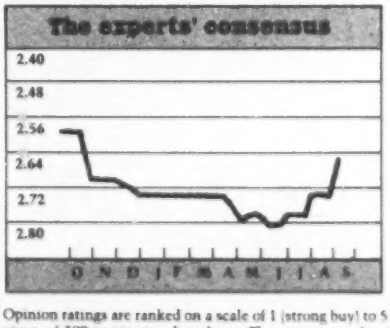
Where The Action Is

Energy spurned again. Despite a reviving economy, a weakening dollar (which should boost U.S. exports) and a growing demand for larger cars, the market again turned its back on the oils. With a 2.2% loss for two weeks and a 4.1% loss for four weeks, this group suffered further erosion of the modest gains it had been making for the past several months. Investors responded to the bankruptcy of Continental Airlines and the precarious positions of several competitors by dropping transportation shares to a last-place tie with energy shares for two-week performance. Capital goods lost 0.9%, and finance declined 0.6%. Several major brokerage stocks lost ground when they revealed large losses stemming from the failure of a major client to deliver securities.



What The Analysts Think

Technology doesn't impress the experts. While utilities became further entrenched in first place in analysts' favor, technology stocks ended up in the cellar. And energy, a former favorite, slipped all the way to eighth place. Transportation shares also declined in the rankings. Meanwhile, consumer durables shot up to fourth place.



Rank	Sector	Current opinion	Rank 2 weeks ago	Rank 4 weeks ago
1	Utilities	2.35	1	1
2	Raw materials	2.58	2	3
3	Capital goods	2.63	3	6
4	Consumer durables	2.64	9	9
5	Finance	2.71	5	5
6	Transportation	2.72	4	2
7	Consumer nondurables	2.73	8	8
8	Energy	2.74	6	4
9	Technology	2.74	7	7

Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 9/30/83. Prepared by Wilshire Associates, Santa Monica, Calif.

Last year it was easy to make money on moneylosing companies. Will that also be true in 1983?

Losers can be winners

By Steve Kichen

IN THE BULL MARKET THAT SWEPT up almost everything in its tide, the shares of moneylosing firms surprisingly made some of the greatest comebacks.

In July 1982, for example, our Statistical Spotlight featured 50 companies that were losing money, with the biggest losers at the top of the roster. That turned out to be a gilt-edged shopping list. In the 15 months since then, a portfolio of those stocks would have outperformed the Wilshire 5000 index by a 63% margin.

There's always an element of risk with companies running massive losses, of course. And not surprisingly, back in the summer of 1982 many a prudent portfolio manager turned his nose up at the likes of Chrysler, Massey-Ferguson, A&P and Alpha Portland Industries. But over a period when the average stock was up a healthy 60%, our losers list was up an even more impressive 98%. In fact, only 18 of the 50 stocks in our 1982 ranking underperformed the market. Even more impressive, only 6 of the stocks actually sell for less now than they did then.

Losers may be market pariahs, but they also have built-in and explosive upside potential if enough investors feel that a company can return to profitability. Look, for example, at Chrysler, the best-performing stock on our earlier list. In 15 months its shares went from 6½ to 30¼, a 373% gain. Chrysler's recovery has already become a corporate legend. But the stock can often come back before the earnings do: American Motors, which has still to return to profitability, is up 150%. Ford, the third automaker from our earlier list, is up 182%.

Fuqua Industries shows the second-best performance from our earlier list. Its problems in 1981 stemmed largely from writeoffs and restructuring. But the conglomerate returned to profitability in 1982 and analysts expect earnings of around $4 a share for 1984.

The biggest loser from July 1982 was retailer KDT Industries, off 71%. KDT filed for Chapter 11 on Aug. 5, 1982, and it appears that most of its remaining operations will be taken over by Ames Department Stores.

Two other companies on our last list also wound up in bankruptcy court, Mesta Machine and Continental Air Lines. But even this doesn't necessarily mean bad news for shareholders. For example, since July 1982 Mesta shares have gained some 104%. The market is still sorting out the situation at Continental Air Lines. The carrier entered bankruptcy late last month, its future is uncertain.

The results of the 1982 deficit list prompted us to return to the computers at Wilshire Associates for another look at losers. This time, we screened for companies with sales of $50 million or more and losses of at least $40 million in 1982. The accompanying table shows 50 of the biggest losers. Among them, these firms lost a whopping $10 billion last year. International Harvester has the dubious distinction of leading with $1.6 billion worth of red ink.

Including Tiger International, a multimode transportation company, there were nine air carriers on our earlier list and eight in our new group of deficit-ridden firms. Moreover, six of them are the same companies—

The Un-Nifty Fifty revisited

Since July 1982 the Wilshire index has gone up 60%. These deficit-ridden firms we highlighted then, however, are up an average 98%.

Company	% change in price
Chrysler	373
Fuqua Inds	314
Recognition Equip	265
Orion Pictures[1]	227
Publicker Inds	214
Basco[2]	203
Massey-Ferguson	193
Ford Motor	182
Centronics Data	174
Intl Harvester	171
American Motors	150
Instrument Systems	145
Shapell Inds	138
Bird, Inc	131
Ramada Inns	130
United Merchants & Mfgs	126
Pan Am World Airways	121
Alpha Portland Inds	121
Great Atlantic & Pacific Tea	121
Outlet Co[3]	116
CertainTeed	116
Mesta Machine[4]	104
Wurlitzer	93
Gen Refractories	88
Fedders	85
Driver-Harris	84
UAL	84
Toro	80
Superscope	79
McIntyre Mines	75
World Airways	71
MacMillan Bloedel	62
Kay Corp	59
Pabst Brewing[5]	57
Allis-Chalmers	47
Edward Hines Lumber	46
Rath Packing	43
Roblin Inds	40
Inspiration Resources[6]	29
Lamson & Sessions	23
Pantry Pride	21
Adams Resources & Energy	21
Republic Airlines	6
Munsingwear	4
Texas Air	–4
Eastern Air Lines	–4
Tiger Intl	–10
Western Air Lines	–17
Continental Air Lines[4]	–23
KDT Inds[4]	–71

[1]Formerly Filmways.
[2]Acquired for 0.36 shares Best Products Co.
[3]Rockefeller Center, Inc. offering $45.33 per share.
[4]Chapter 11.
[5]Acquired by Heileman Brewing @ $32 per share.
[6]Successor to Hudson Bay Mining & Smelting.

Statistical Spotlight

losers then, still losers today: Texas Air, Tiger International, Eastern, Western, Pan Am and World Airways. With a new round of fare wars on the horizon, their troubles seem to be far from over.

Steelmakers are also well represented on our current table. The recently announced merger between LTV and Republic Steel could be the first of many such combinations as the industry struggles with overcapacity and inefficient plants. Yet shareholders of moneylosing Republic have some cause to celebrate. LTV is offering $35 a share, and this stock hasn't traded at that level since 1976.

Lynch, Jones & Ryan's Institu-

Critical list

The recession is over, but these 50 firms—many selling close to their 52-week highs—have not returned to profitability. Such shares are for venture-some investors willing to take big chances.

Company/business	Recent price	52-week price range	1982 sales (millions)	1982 loss	Earnings per share: latest 12 months	Earnings per share: 1982	Earnings per share: 1984 estimate	Book value/ share
International Harvester/agricult equip	9½	12½– 3	$4,292.3	$–1,660.0	$–69.13	–$52.07	–$3.19	neg
Bethlehem Steel/integrated steel	25	26⅛–14⅞	5,260.3	–1,469.6	–37.23	–33.64	3.25	$29.89
Pan Am World Airways/airline	7¾	8⅞– 2½	3,716.0	–485.3	–4.02	–6.30	0.51	4.12
National Intergroup/integrated steel	31	32 –13⅞	3,044.2	–462.8	–6.31	–6.25	4.73	55.71
AMAX/metals, minerals, coal	27¼	32¾–19⅛	2,415.5	–390.1	–6.83	–6.53	0.97	32.60
US Steel/integrated steel	29⅞	30½–17⅜	18,907.0	–361.0	–7.47	–3.99	3.50	58.49
Braniff Intl[1]/airline	2 7/16	6½– 9/16*	367.6	–351.0	–15.94	–9.41	NA	neg
Armco/integrated steel	19⅞	20⅞–14⅞	5,427.9	–345.1	–7.90	–5.41	1.73	31.51
Dome Petroleum/oil & gas explor, dev	4⅜	5¾– 2 1/16	2,378.3	–299.8	–1.27	–1.39	0.47	2.28
Republic Steel[2]/integrated steel	25⅞	26⅜–13¾	2,738.2	–248.5	–13.52	–15.07	4.17	86.70
Allis-Chalmers/agricultural equip	18⅜	19⅜– 7¾	1,610.0	–207.0	–23.63	–17.24	0.73	33.51
Eaton/auto parts	44¼	45¾–28	2,452.6	–189.6	–0.65	–6.74	4.68	29.88
United Merchants & Mfg/textiles	13¼	14⅞– 5¼	561.4	–183.5	–2.96	–6.51	0.90	20.33
Caterpillar Tractor/construc mchnry	45⅝	49½–33⅛	6,469.0	–180.0	–5.57	–2.04	3.41	39.62
LTV[2]/integrated steel	18¼	18¾– 8¼	4,776.8	–170.3	–6.35	–3.20	2.63	22.76
Inco/nickel and copper	18	18¾– 8½	1,003.4	–165.8	–2.49	–2.29	1.40	10.56
Revere Copper & Brass[1]/metal fabricating	13⅞	14⅞– 4¾	561.6	–157.1	–23.53	–10.07	NA	5.56
American Motors/automotive	8⅛	11¼– 3½	2,878.4	–153.5	–2.92	–2.85	0.14	2.71
Inland Steel/integrated steel	32	35 –20⅝	2,807.6	–147.4	–6.11	–6.27	4.06	52.91
Kaiser Aluminum & Chem/aluminum	21½	22⅝–13⅜	2,911.5	–115.0	–3.26	–2.68	2.59	30.89
Crown Zellerbach/paper & forest prods	29½	33⅞–18½	2,947.4	–112.2	–4.51	–4.86	3.62	34.21
Sharon Steel/integrated steel	3¾	5¼– 2⅛	692.9	–105.6	–1.28	–0.94	NA	1.95
MacMillan Bloedel/paper, forest prods	23¾	26⅜–16½	1,496.2	–105.0	–3.44	–5.05	NA	23.53
Alliance Tire & Rubber/t&r prods	6¾	12¼– 3	2,333.1	–98.9	–0.53	–0.88	NA	neg
Air Florida System/airline	2 1/16	4 – 1 9/16	281.8	–93.4	–4.83	–5.66	2.38	neg
NVF/steel	2⅝	3¾– 1¼	810.6	–92.5	–0.96	–0.63	NA	neg
Manville[1]/building materials	12	16⅝– 5	1,772.2	–87.7	–2.05	–5.14	2.85	31.90
MGF Oil/oil & gas drilling	1 3/16	6⅛– 1 1/16	105.0	–80.3	–6.42	–5.12	–0.30	1.73
Hanna Mining/iron	23	26¼–16⅝	143.2	–80.3	–10.57	–8.47	2.21	38.70
Wheeling-Pittsburgh Steel/integrated steel	24	24⅞–13	755.1	–78.9	–27.81	–21.05	2.50	87.07
Harnischfeger/construction machinery	8¾	10⅞– 5½	447.5	–76.5	–7.60	–7.64	–1.27	13.37
Eastern Air Lines/airline	5⅜	11¾– 4⅞	3,769.2	–74.9	–5.51	–3.82	0.63	9.97
Phelps Dodge/copper	27⅛	34 –21⅝	957.8	–74.3	–1.95	–3.59	2.95	46.18
Gotaas Larsen Shipping/maritime	9	9⅛– 2⅝	174.9	–73.3	–7.85	–7.11	NA	18.52
Inspiration Res/metals, minerals, oil	14	15¼–11¾	755.9	–72.3	–3.39	–4.53	1.50	NA
Blocker Energy/oil & gas drilling explor	3¼	4¾– 2⅛	95.5	–71.7	–10.70	–11.96	NA	neg
General Refractories/furnace lining mtrls	5⅝	6⅞– 2¾	340.8	–63.5	–5.28	–6.45	0.40	4.72
Mead/paper, forest products	35⅜	36¾–16¾	2,666.5	–61.8	–3.13	–2.38	3.09	29.65
Imperial Corp Am/savings & loan	10⅝	17⅜– 8⅜	549.2	–61.1	–3.20	–4.30	1.82	15.30
Dome Mines/gold mines	15⅜	22⅛– 8	148.2	–60.6	–0.41	–0.87	1.15	3.78
Tiger Intl/freight forwarding	6¾	11½– 5⅜	1,429.7	–60.5	–12.24	–8.04	0.86	16.82
McIntyre Mines/coal	35⅜	38⅛–19⅞	79.2	–60.5	–13.28	–16.78	2.65	48.26
World Airways/airline	4½	7⅛– 1½	284.6	–58.5	–5.35	–5.95	NA	1.43
Alcan Aluminium/aluminum	38½	41⅝–20½	4,644.0	–58.0	–0.99	–0.69	4.03	29.74
Texas Air/airline	5⅝	13⅞– 5⅛	1,271.1	–55.8	–5.60	–7.27	1.54	4.90
Reynolds Metals/aluminum	39⅝	41⅜–22⅛	2,980.9	–55.1	–7.93	–1.34	2.99	66.23
Lionel[1]/retail	4¾	7¾– 2½*	295.1	–51.1	–2.43	–7.20	NA	neg
Norlin/musical instruments	28⅛	30⅜–13	96.8	–44.4	–18.53	–19.24	–0.45	35.98
Western Air Lines/airline	4⅜	7¼– 3¼	1,065.3	–44.0	–3.59	–3.56	–0.24	3.66
Nashua/office equipment	25¾	30⅛– 8⅞	597.7	–40.5	–7.88	–8.66	3.59	19.91

NA: Not available. neg: negative. *1983 price range. [1]Chapter 11. [2]LTV plans acquisition of Republic Steel at $35 per share.

Sources: Wilshire Associates; Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan.

Statistical Spotlight

tional Brokers Estimate System (IBES) helped us add a new feature to our list: consensus earnings estimates for many companies. Those companies on our list expected to make money next year are presently selling at an average of 9.8 times what the experts believe their 1984 earnings will be, compared with an overall market multiple of a little over 14 for latest 12-month earnings. Unless you are looking at 1985 earnings and beyond, that means many of these shares are priced very generously today.

But there may be bargains. Air Florida, for example, sells at a mere 0.8 times its 1984 estimate, LTV at 6.9 times and Tiger International at 7.8 times. Risks, of course, abound in each of these companies; they are for price-conscious risk-takers in the market, not widows and orphans.

If you are a gambler at heart, then, look closely at our 50 losers. Remember how well our last list performed. But note, too, that now most of these stocks are selling much closer to their 52-week highs than to their recent lows. ■

The Funds

Many mutual funders are outraged that the SEC proposes negotiated sales commissions. What are they yelling about?

Another May Day

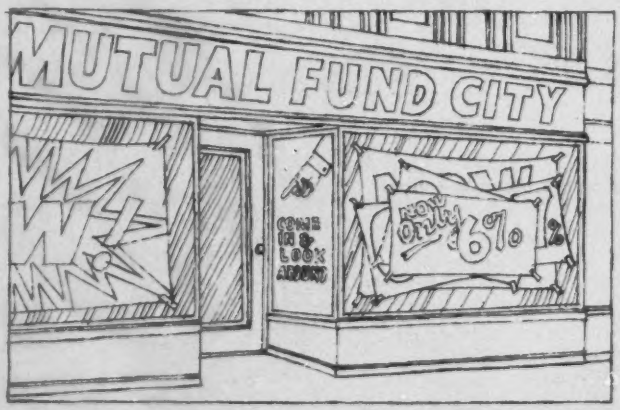
By Barbara Rudolph

REMEMBER MAY DAY? On Wall Street that means May 1, 1975, when the Securities & Exchange Commission abolished fixed commission rates. Lots of brokerage firms closed their doors, including some very big ones. Wall Street changed forever. It became a tougher place to do business, but the survivors ended up making more money than ever in spite of generally lower commission schedules.

If the SEC has its way, a similar transformation may well occur in the mutual fund industry. Today everyone who buys a load mutual fund pays a fixed commission charge. Usually it is 8.5% for all but the biggest customers. Typically, the broker pockets 85% or so of the sales charge, and the fund selling organization—usually a subsidiary of the fund management firm—gets the rest.

Now the SEC wants to allow funds to negotiate sales charges with prospective customers. The proposal has been under consideration since April. The deadline for comments, many of which have been opposed to the proposal, was Sept. 30, and a decision is likely later this year.

Most people hate change, and, needless to say, many fundmen are yelling wolf. They are afraid that the new rule will lead to commission-cutting without really boosting sales. As things now stand, mutual fund commissions are a lucrative source of income for securities salesmen, who have strong motives for pushing load funds—even though their customers would be better off in most cases with no-load funds. Not surprisingly, then, two-thirds of all the new money that gets funneled into mutual funds goes into the load-charging funds.



Faced with lower commission rates, brokers might simply turn their attention elsewhere. "Suppose a salesman spends hours in your living room, explaining how great our growth fund is," says one fund executive. "You thank him, say good-bye, price-shop around to several brokers and determine you're going to buy from a discounter. That's a lot of time down the drain. Pretty soon that guy is going to be selling oil deals or tax shelters instead of mutual funds."

Will the change be made? Probably. "There is simply a policy here against fixed prices," says a staff attorney for the SEC. Deregulation is a powerful rallying cry, and the fund managers know it.

If the SEC's efforts succeed, they should accelerate a trend that is already gaining momentum. Many load funds may simply become no-loads. Another recent SEC rule makes this more attractive than ever. The latest twist in no-load fund marketing—known technically as 12 B-1 status—allows managers to use a portion of fund assets for selling expenses (FORBES, *July 18*). When they move customers' money into these no-load funds, they receive a commission of roughly 4%. Not a full load, to be sure, but enough to keep some brokers happy—and actively hawking the product.

In the long run it is even possible that the load charges will disappear altogether. Would that be such a disaster? After all, the fund sponsors are amply—and so regularly—rewarded with the annual management fee. Why should the customer pay twice? ■